J.L. BAINBRIDGE
& COMPANY, INC.

◆PROFESSIONAL MONEY MANAGEMENT◆

2003 MID-YEAR REPORT

INVESTMENT RESULTS

For the first half of 2003, J. L. Bainbridge & Company, Inc. achieved a 7.3% rate of return on all money under management. In conjunction with 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001 and 2002 returns of 10.2%, 38.4%, 20.3%, 23.2%, 29.9%, 5.6%, 16.9%, -3.3 and -8.5% respectively, a January 1, 1994 investment of $100, 000 has grown to a June 30, 2003 value of $344,511 which equates to an increase of 244% over the past nine and one half years. The annually compounded return over the past nine and one half years is 13.8%. These results assume reinvestment of dividends and are after transaction costs and J. L. Bainbridge & Company, Inc.'s management fee.

INVESTMENT REVIEW

Several years ago a movie "The Perfect Storm" portrayed a fishing boat's captain and crew fighting for survival in a ferocious North Atlantic storm. The three years ending March 2003 was the equivalent of a perfect storm for investors. Unfortunately in the movie the captain and crew did not survive, as was the fate of many investors' portfolios over the past three years. However we survived because our portfolio of high quality growth stocks is the equivalent of a perfect boat while high-risk speculative investors entered the storm with a rowboat and suffered the consequences.

This does not mean we are satisfied with our results over this period, but we are pleased that clients' assets have been protected from the worst market decline of our lives. Hence clients are positioned to move forward while many investors will spend several years getting back to an even status. Our 7.3% return so far this year is on target for achieving a 15% return this year. More importantly the potential to exceed 15% both this year and over the next several years is real because the companies we own continue to produce strong earnings and dividend growth, they are reasonably priced and the market environment is slightly positive.

INVESTMENT STRATEGY

With the economy growing at a long term rate of around 2% and with inflation under 2%, one would expect companies to grow earnings 4% annually which is probably about right for the vast majority of companies. In sharp contrast the companies in our portfolio are growing in the teens. These companies are growing at this rate because they are gaining market share at the expense of their competitors, serving fast growing market segments such as health care which is being driven by an aging population, adding new business via cash acquisitions and/or benefiting from faster growth in international markets. Walmart is prospering because its internally developed technology based distribution system is a big advantage that has other discount and food retailers reeling. This distribution system enables Walmart to sell half of products before they are paid for which frees enough cash to open 200 supercenter stores each year, expand aggressively overseas and repurchase shares without incurring debt. As an excellent example of gaining market share, only seven years after entering food with the supercenter store format, Walmart became the largest food retailer in the USA.

Another factor enhancing the potential for future gains is reasonable stock prices. Three years of negative markets have resulted in only small gains in the price of the stocks of the growth companies we own while over this period earnings have increased 50% or more. Thus the current evaluation of these companies is well below the levels that prevailed three years ago, which means the potential for appreciation over the next several years is higher than three years ago. For example Johnson & Johnson is currently selling at 19 times estimated 2003 earnings, which is the same as the average for the companies in the S&P 500. Based on our analysis, J&J will grow earnings at 15% annually and based on this growth would end 2003 selling at 25 times 2004 earnings to be at a price reflecting our calculation of full value. As a comparison over the years 1998 and 2002, which includes the down markets of the last three years, J&J averaged a year end price 27 times the next year's earnings. Quantifying the potential returns assuming 15% compounded earnings growth and a year end stock price 25 times the next years earnings yields returns of 46%, 70% and 162% over the next six months, eighteen months and five years respectively. The potential return of 162% equates to an annually compounded return of 21% over the next five years. While we cannot predict the future, these high potential returns are the basis of our steadfast commitment to a 15% annually compounded objective, and they are also why we do not agree with today's pessimistic view that investors should expect single digit returns over the next several years.

The last factor that favorably impacts the potential for strong gains is the slightly positive market environment. Four years ago we became cautious when the market became very speculative and investor expectations became unrealistic. Today the market is much lower and both speculation and expectations have been subdued. Historically the best time to own equities has always been when no one wants them.

CONCLUSION

Today many analysts are predicting a long secular bear market similar to the period from the late sixties to the early eighties. However the economic and political environment today is much different from that era which included the Vietnam war, the impeachment of President Nixon, the oil embargo and double digit inflation and interest rates. Although we have some problems today, nothing compares to the severe jolts that shook America then. On the other hand we are not pinning our hopes on either a strong economic recovery or a strong stock market which we suspect could be held back by the over capacity plaguing most industries as well as slow growth in both Europe and Japan. In this environment inflation and interest rates will likely remain very low, which is very favorable for growth equities.

Other positives are cash held by households is at record levels and the massive build-up of retirement assets by the next generation will continue for at least fifteen years. The dilemma facing investors is where to put this money to earn a good return. Certainly money market funds yielding less than 1% will not. Nor will 3% government and quality corporate bonds. Nor in our view will the stocks of most companies because economic growth will not be strong enough to cause a major recovery of profits. When faced with the choice of owning General Motors or Johnson & Johnson, the answer is obvious. General Motors is a good firm but faces a worldwide glut of automobile manufacturing capacity and with more retirees than workers, a $13 billion shortfall in their pension plan. J&J's pension plan is fully funded and cash on hand exceeds $7 billion. J&J' s business is robust around the globe while GM has to offer rebates and 0% financing in order to compete with the myriad of brands in the marketplace. This example illustrates why after the slower economy that followed the horrific attacks of September 11, we restructured our portfolio by removing all companies that are susceptible to slower economic growth and took advantage of the more favorable prices of some of the best growth companies to add Cardinal Health, First Data, Forest Laboratories, General Mills, Medtronic and Sysco to clients' accounts. Consequently we have the strongest portfolio of reasonably priced, high quality, growth companies in our history. Over time these companies' stocks should attract a larger share of investors' dollars and sell at a premium to the market. This is the basis of our plan to achieve 15% growth in an environment where the market could yield only a single digit return for the next several years.

J.L. BAINBRIDGE

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Managing over $180 million for more than 700 clients nationwide.
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